

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

October 19, 2005

IN RE:

**PETITION OF KENTUCKY UTILITIES FOR
AN ORDER AUTHORIZING THE ISSUANCE
OF SECURITIES AND THE ASSUMPTION OF
OBLIGATIONS**

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**DOCKET NO.
05-00249**

ORDER APPROVING FINANCING TRANSACTION

This matter came before Chairman Ron Jones, Director Pat Miller and Director Sara Kyle of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at the regularly scheduled Authority Conference held on October 17, 2005 for consideration of the *Petition* of Kentucky Utilities Company ("KUC") for an order, pursuant to Tenn. Code Ann. § 65-4-109 (2004), authorizing the issuance of securities and the assumption of obligations.

PETITION

KUC is an electric utility primarily serving customers in Kentucky and Virginia, with only five (5) customers in the State of Tennessee. In its *Petition*, filed with the TRA on September 9, 2005, KUC requested authority to issue its First Mortgage Bonds in an aggregate principal amount not to exceed \$13,266,950 and to assume certain obligations in connection therewith, represented by one or more loan agreements with Carroll County, Kentucky ("Carroll County"). Carroll County will simultaneously issue Environmental Facilities Revenue Bonds ("Pollution Control Bonds") in an aggregate principal amount not to exceed \$13,266,950, the proceeds of which will be loaned to KUC. KUC will use the proceeds of such Carroll County

Pollution Control Bonds to provide permanent financing for portions of pollution control facilities at KUC's Ghent Generating Station in Carroll County. The proposed First Mortgage Bonds of KUC will be used to secure and collateralize the Carroll County Pollution Control Bonds. KUC also requested authority to execute, deliver and perform its obligations under loan agreements with Carroll County and under any remarketing agreements and notes, as set forth in the *Petition*, and to perform the transactions contemplated by those agreements. KUC asserts that the transaction will allow a portion of the cost of KUC's pollution control project to be financed on a tax-exempt basis, resulting in lower costs.

OCTOBER 17, 2005 AUTHORITY CONFERENCE

Tenn. Code Ann. § 65-4-109 (2004) provides:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

At a regularly scheduled Authority Conference held on October 17, 2005, the panel found that based on the *Petition* and responses to data requests:

- (1) the proposed transaction is subject to approval pursuant to Tenn. Code Ann. § 65-4-109 (2004);
- (2) the transaction is being made in accordance with the laws enforceable by the Authority; and
- (3) the purpose of the transaction is in the public interest because it will allow KUC to reduce its costs through the use of tax-exempt financing.

In addition, the panel noted that the Kentucky Public Service Commission approved the transaction subject to certain filing requirements by order entered October 14, 2005.¹

Therefore, the panel voted unanimously to approve the *Petition* and to require that KUC file with the Authority the same documentation as required by the Kentucky Public Service Commission in its October 14, 2005 *Order*.

IT IS THEREFORE ORDERED THAT:

1. Kentucky Utilities Company is authorized to issue and deliver its First Mortgage Bonds in one or more series in an aggregate principal amount not to exceed \$13,266,950 in the manner set forth in its *Petition*

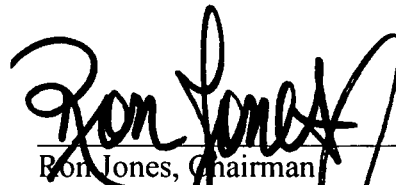
2. Kentucky Utilities Company is authorized to execute, deliver and perform its obligations under, inter alia, the loan agreement(s) with Carroll County, and under any remarketing agreements, hedging agreements, auction agreements, bond insurance agreements, guaranty agreements, credit agreements and facilities, and such other agreements and documents as set out in its *Petition*, and to perform the transactions contemplated by all such agreements.

3. Kentucky Utilities Company shall, within 30 days from the date of issuance, file with the Authority a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate or rates, and all fees and expenses, including underwriting discounts or commissions, or other compensation, involved in the issuance and distribution thereof. In addition, Kentucky Utilities Company shall include a detailed explanation as to how the interest rate alternative chosen represents the most reasonable interest rate available at the time of issuance. The explanation shall include a description of the specific

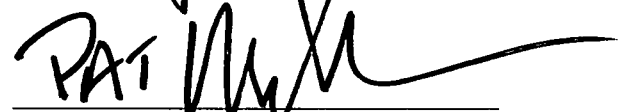
¹ On October 14, 2005, the Kentucky Public Service Commission issued an *Order* approving the issuance of the securities that are the subject of this docket. This *Order* was filed with the Authority on October 14, 2005. See *In the Matter of Application Of Kentucky Utilities Company For An Order Authorizing The Issuance Of Securities And The Assumption Of Obligations*, Case No. 2005-00357, *Order* (October 14, 2005)

interest rate management techniques and interest rate management agreements used by Kentucky Utilities Company for each issuance, as well as copies of any executed interest rate management agreements. If a variable rate is chosen, Kentucky Utilities Company shall file a detailed description of the criteria to be periodically applied in determining whether the variable rate should be converted to a fixed rate.

4. The authorization and approval given hereby shall not be used by any party, including, but not limited to, any lending party, for the purpose of inferring an analysis or assessment of the risk involved to a purchaser of Kentucky Utilities Company securities. Nothing contained herein creates or is intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee, or any political subdivision thereof for the transactions approved herein.



Ron Jones, Chairman



Pat Miller, Director



Sara Kyle, Director